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Recovery Resumes at Modest Pace in November

Factories Retrench for Future Growth

Much attention has been given to the slowing in the pace of economic growth through the summer and early fall. Inflation-adjusted gross national product (GNP), the dollar value of newly produced final goods and services, grew at a hectic 10.1 percent annual rate in the first quarter and a strong 7.1 percent rate in the second quarter but slowed sharply to a 1.6 percent annual rate in the July-September quarter.

A slowdown in growth is typical in the mid-life of a business cycle expansion. But it is uncertain whether the current slowing will be followed by a fairly rapid rate of growth, as is typical; or whether the slowdown is more serious and will be more protracted than typicallly occurs; or whether it marks the end of the expansion, to be followed shortly by recession.

Most economists are predicting that the economy will continue to grow through most of next year at a slightly improved pace. Early estimates of fourth-quarter GNP show a modest pick-up from the third quarter.

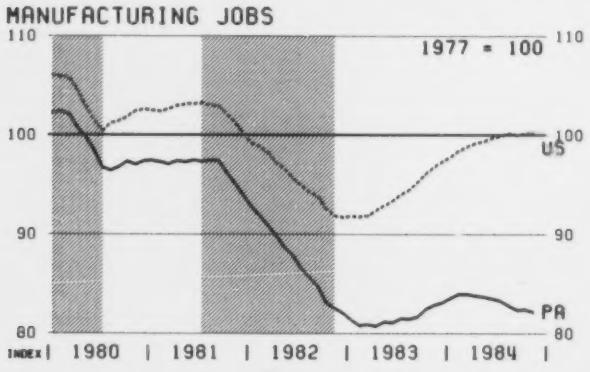
In a comparison of the current recovery — which was two years old in November — with previous postwar recoveries, the Center for International Business Cycle Research at Columbia University found that the current upswing has topped previous peaks by more than the average percentage.[1] This vigor has been especially marked in job creation.

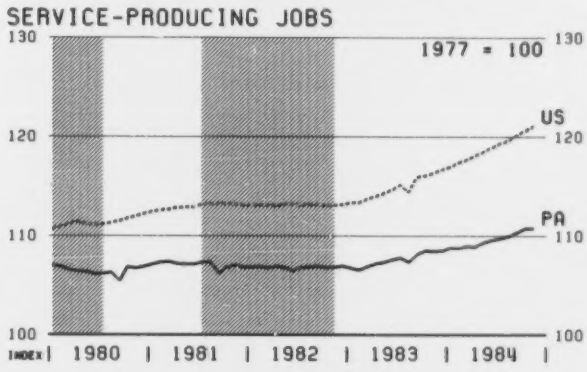
In the first year or so of previous expansions, employment rose much more slowly than output, but it also did not slow down as much as output in the latter part of the second year.

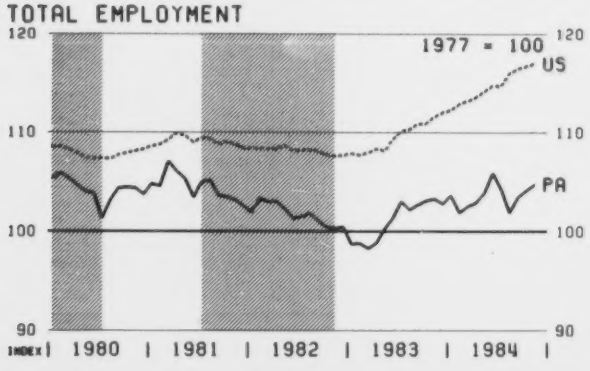
Nationally, employment levels in nonfarm industries advanced 1 percent in the first six months of the current recovery and then took off with a 2.4 percent gain in the second six months and a 2.3 percent gain in the third six months, but fell back to a 1.8 percent gain in the fourth six-month period. The pre-recession high was exceeded in October 1983 — one month before the recovery was one year old.

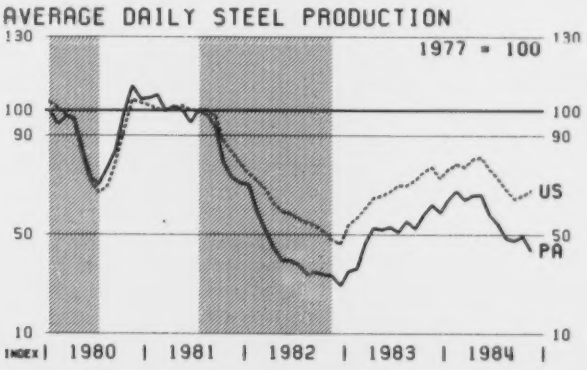
In Pennsylvania, the number of nonfarm jobs

[1] Center for International Business Cycle Research, Columbia Business School, Columbia University, *Recession-Recovery Watch*, vol. 6, no. 5 (New York, NY: Columbia University, October 1984).









PENNSYLVANIA BUSINESS SURVEY

College of Business Administration The Pennsylvania State University **January 1985**

Economic Activity in Pennsylvania	1984 Oct.	1984 Nov.	1983 Nov.	Seasonally Adjusted Indexes (1977 = 100) 1984 Oct.	1984 Nov.	1983 Nov.
Pennsylvania Industries						
All nonagricultural industries						
No. of wage and salaried jobs (thous.)[1]	4,672.*	4,681.	4,610.	101.5*	101.4	100.0
Nonmanufacturing						
No. of wage and salaried jobs (thous.)	3,557.*	3,564.	3,491.	109.4*	109.4	107.2
Manufacturing						
No. of wage and salaried jobs (thous.)	1,111.*	1,106.	1,115.	82.4*	82.2	82.9
Ave. wkly. hrs. worked by prod. workers	40.0	40.8	40.2	101.2	102.4	100.9
Total wkly. person-hours worked (mils.)	30.5*	30.9	31.0	79.2	79.6	79.6
Total wkly. payroll (mil. dols.)	286.9*	293.2	282.7	127.7*	128.4	123.8
Steel production (thous. tons)	994.	862.	1,224.	49.	44.	62.
Industrial electric power sales (mil. dols.)	3,609.	3,462.	3,515.	98.	96.	97.
Mining						
Anthracite coal (thous. net tons)	395.	376.	410.	71.	66.	73.
Bituminous coal (thous. net tons)	5,233.	n.a.	5,995.†	62.	n.a.	75.†
Construction contracts awarded (mil. dols.)						
Total	719.9	829.0	402.7*	226.	248.	125.*
Residential building	255.9	238.4	197.4*	170.	166.	149.*
Other building	365.1	461.2	145.1*	318.	362.	106.*
Nonbuilding (utilities and public works)	99.0	129.5	60.1*	196.	236.	106.*
Employment of Pennsylvania Residents						
Employed, no. of persons (thous.)	5,102.	5,136.	5,066.	104.1	104.7	103.3
Unemployed						
No. of persons (thous.)	456.	455.	552.	121.9	119.1	143.1
Rate (percentage of labor force)	8.2	8.1	9.8			
Rate, seasonally adjusted	9.0	8.7	10.5			
Civilian labor force, no. of persons (thous.)	5,558.	5,591.	5,618.	105.4	105.8	106.4
Initial claims for unemployment benefits	131,518.	134,744.	137,199.	92.9	95.2	94.9

Consumer Prices, all items	Urban Indexes (1967 = 100) 1984 Oct.	1984 Nov.	1983 Nov.	Percentage Change Month Ago	Year Ago
U.S. city average	315.3	315.3	303.1	0.0	+4.0
Philadelphia	303.7	306.0	291.7	+0.8	+4.9
Pittsburgh	321.1	n.a.	313.7†	n.a.	+2.4
Northeast PA	n.a.	301.1	288.5	n.a.	+4.4

NOTES: Data on employment have been revised to first quarter 1983 benchmarks.
[1] Total includes workers on strike. * = figure revised † = figure for October 1983 n.a. = data not available
SOURCES AND DEFINITIONS OF DATA ARE AVAILABLE ON REQUEST.

Percentage Changes in Employment Levels[1]	1979* to Nov.'82	Nov.'82 to May '83	May '83 to Nov.'83	Nov.'83 to May '84	May '84 to Nov.'84
United States					
Goods-producing industries	−13.3	+ 0.7	+ 4.2	+ 3.3	+ 1.1
Service-producing industries	+ 3.8	+ 1.1	+ 1.7	+ 1.9	+ 2.0
All nonagricultural industries	− 1.3	+ 1.0	+ 2.4	+ 2.3	+ 1.8
Pennsylvania					
Goods-producing industries	−20.0	− 1.7	+ 2.0	+ 1.2	− 1.1
Service-producing industries	+ 1.0	+ 0.5	+ 1.0	+ 0.9	+ 1.2
All nonagricultural industries	− 6.2	− 0.2	+ 1.3	+ 1.0	+ 0.6

NOTES: [1]All percentages were computed from seasonally adjusted establishment data.
*Annual average for 1979 used.

Pennsylvania Composite Indexes

	Index		Percentage Change from Preceding Month	
	Leading	*Coincident*	*Leading*	*Coincident*
April 1984	104.0	89.1	0.1	0.1
May	104.4	89.5	0.4	0.4
June	104.1	90.0	−0.3	0.6
July	104.4	89.4	0.3	−0.7
August	103.5	88.4	−0.9	−1.1
September	104.1	88.9	0.6	0.6
October	103.9	88.9	−0.2	0.0
November	104.3	89.1	0.4	0.2

continued to decline for a couple of months after the national job level first turned up and has yet to regain pre-recession heights. Nevertheless, employment gains in the state have exhibited the same pattern, with relatively strong gains in the first year and a half of recovery and significantly smaller gains in the last six months of the two-year period.

But if we separate the goods-producing industries from the service-producing industries, we find that the slowdown represented in the aggregate data for the nation and the state is solely attributable to the goods-producing sector. In fact, jobs in the service-producing sector have been increasing at an increasing rate.

Goods-producing industries are those involved in the production of tangible items — manufacturing, mining and construction industries — while service-producing industries produce intangible items. The latter includes transportation; public utilities; wholesale and retail trade; finance, insurance and real estate; other services, such as health care, food, recreation and business-related services; and federal, state and local governments. Typically, service-producing industries are much less sensitive to the vagaries of the business cycle than goods-producing industries.

The poor performance of the goods-producing industries stems from a retrenching in the nation's factories, which has had a pronounced effect in Pennsylvania. Manufacturing industries are facing competition at home and abroad that is unprecedented in an expansion period. As a result, businesses are cutting labor costs through layoffs, scaled-back hiring plans and salary reductions. Such preoccupation with labor costs, common during recessions, is highly unusual at the end of the second year of recovery.

In November, Pennsylvania's seasonally adjusted factory job level fell 0.3 percent and was 0.8 percent lower than the level in the same month of last year. After adjustment for inflation and regular seasonal variation, total payrolls in the state's manufacturing industries showed no improvement from levels of a year ago.

Pennsylvania's steel industry is a case in point. The state's steel mills are facing stiff foreign competition, as well as competition from newer, more efficient mills in other states.

In November, the seasonally adjusted level of steel produced in Pennsylvania fell another 11.8 percent, putting the level of production 30 percent lower than a year ago and at its lowest point since February 1983. At the same time, total U.S. steel production rose a seasonally adjusted 3.2 percent in November, bringing Pennsylvania's share down to 13.4 percent from 14.8 percent in October and a better than 20 percent share before the two most recent recessions.

However, the mills are now leaner and more competitive than they were just a couple of years earlier. In November of 1982, 661,000 tons of steel were produced by 123,000 workers for an average of 5.4 tons per worker. Two years later, 862,000 tons were produced by 115,000 workers for an average of 7.5 tons per worker. But the higher productivity results from the industry adjusting to a permanently lower level of output and is borne at the cost of lower employment.

Overall, employment conditions in Pennsylvania improved in November and over the year. The seasonally adjusted level of total resident employment rose 0.6 percent and was 1.4 percent higher than the November 1983 figure. At the same time, the seasonally adjusted unemployment rate fell to 8.7 percent from 9 percent in October and 10.5 percent a year earlier.

Of the three major industry groups in Pennsylvania's goods-producing sector, only construction was going strong at the end of the second year of recovery. The seasonally adjusted number of construction workers employed in November rose 0.5 percent and was 8.4 percent higher than in the same month last year.

The short-run outlook for the building industries continues to be good. The value of awards for future construction in Pennsylvania registered another month of strong gains.

Awards for nonresidential buildings rose a seasonally adjusted 13.8 percent in value to the highest level ever recorded for a single month. November's record level of awards follows strong showings in September and October. In addition, seasonally adjusted nonbuilding (utilities and public works) awards leaped 20.6 percent in November, following a 61.7 percent gain in October.

Finally, if we were headed for a recession, we should see sharp drops in housing. But the value of residential building awards dropped a small, seasonally adjusted 2.5 percent in November and remained at a historically high level, showing no pattern of decline.

— Norma I. Gavin

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Third Quarter Marked Labor Market Setbacks

Recovery in the state's labor market stalled in the third quarter of 1984 but appears to have resumed in the final quarter of the year.

The third quarter marked a less than seasonal gain in the number of employed Pennsylvanians. At the same time, the number of state residents counted as unemployed rose.

Unemployed persons are all those over 16 years of age who did not work during the survey week but were available for work and either were actively seeking work in the previous four weeks, were waiting to be called back to a job from which they had been laid off, or were waiting to report to a new job in 30 days.

Employment increased among all major demographic groups in Pennsylvania. The largest gains were a 3.2 percent increase in the number of males employed and a 7.8 percent jump in black employment.

However, the overall gain was short of the usual seasonal increase for the July-September period. As a result, the total employment level fell 1 percent after seasonal adjustment.

Unemployment rose in the third quarter but, in the first two months of the fourth quarter, continued the decline which began in the first quarter of 1983.

Joblessness increased the most among women and blacks. These two groups were the only ones for whom the state jobless rates did not register any improvement over the year.

The coincident increases in both employment and unemployment among blacks reflect a significant gain in their labor force participation. While 54.9 percent of all blacks in the civilian noninstitutionalized population either had jobs or were seeking employment in the third quarter of 1983, 60 percent did so in 1984. This narrowed the discrepancy between the black and white participation rates to less than one percentage point.

Teenagers were the only group that did not experience an increase in joblessness in the third quarter. The unemployment rate for 16-19 year olds fell to 18.4 percent, the lowest rate in three years.

In a comparison to the United States as a whole, Pennsylvania had higher unemployment rates for all major demographic groups and experienced smaller over-the-year percentage gains in employment for all groups, except blacks and teenagers.

— Norma I. Gavin

Employment Data by Sex and Race and for Teenagers — Pennsylvania and the United States

	Number Employed	Percentage Change in Employment		Unemployment Rates			Labor Force Participation Rates		
	1984 III (in thousands)	Over Quarter	Over Year	1984 III	1984 II	1983 III	1984 III	1984 II	1983 III
Pennsylvania									
Total, seasonally adjusted	4,947	-1.0	—	9.9	9.0	11.2	59.6	59.7	60.5
Total, unadjusted	5,067	2.0	1.0	9.3	9.0	10.5	60.6	59.3	61.2
Male	2,955	3.2	1.3	8.9	8.8	11.1	74.3	72.2	75.2
Female	2,112	0.2	0.6	9.8	9.3	9.8	48.3	47.8	48.5
White	4,691	1.3	-0.4	8.1	8.1	9.8	60.6	59.8	61.6
Black	318	7.8	12.4	24.3	21.4	21.2	60.0	52.4	54.9
16-19 years old	381	13.1	10.8	18.4	19.4	25.0	59.7	51.7	59.4
United States									
Total, seasonally adjusted	105,201	0.1	—	7.5	7.5	9.4	64.4	64.5	64.2
Total, unadjusted	106,657	1.4	3.6	7.3	7.4	9.1	65.1	64.5	64.9
Male	60,456	2.0	3.5	6.8	7.3	9.0	77.5	76.6	77.6
Female	46,201	0.6	3.7	8.0	7.5	9.3	54.0	53.6	53.5
White	93,376	1.0	3.0	6.1	6.4	7.8	65.3	64.8	65.1
Black	10,367	3.5	7.6	16.2	16.1	19.6	63.8	61.9	63.2
16-19 years old	7,340	11.2	0.2	17.6	19.4	20.8	60.8	55.4	60.9

SOURCE: Current Population Surveys, Bureau of Labor Statistics, U.S. Department of Labor

NOTES: The unemployment rate is the percentage obtained when the number of unemployed is divided by the number in the civilian labor force, and the labor force participation rate is the percentage obtained when the number in the civilian labor force is divided by the number in the civilian, noninstitutionalized population. Unless otherwise indicated, the data are not seasonally adjusted.

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